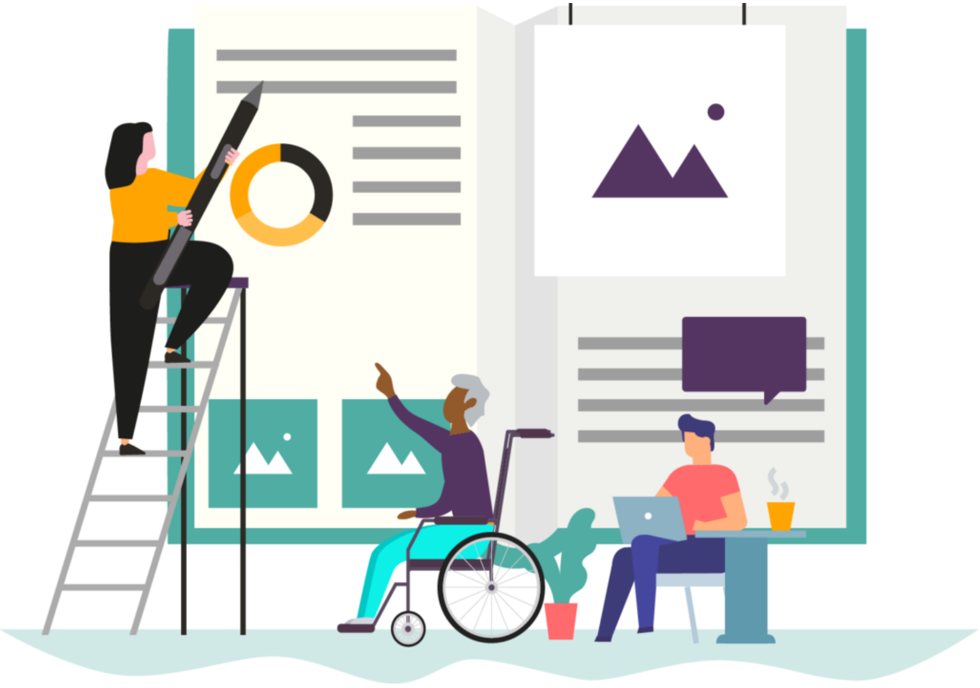
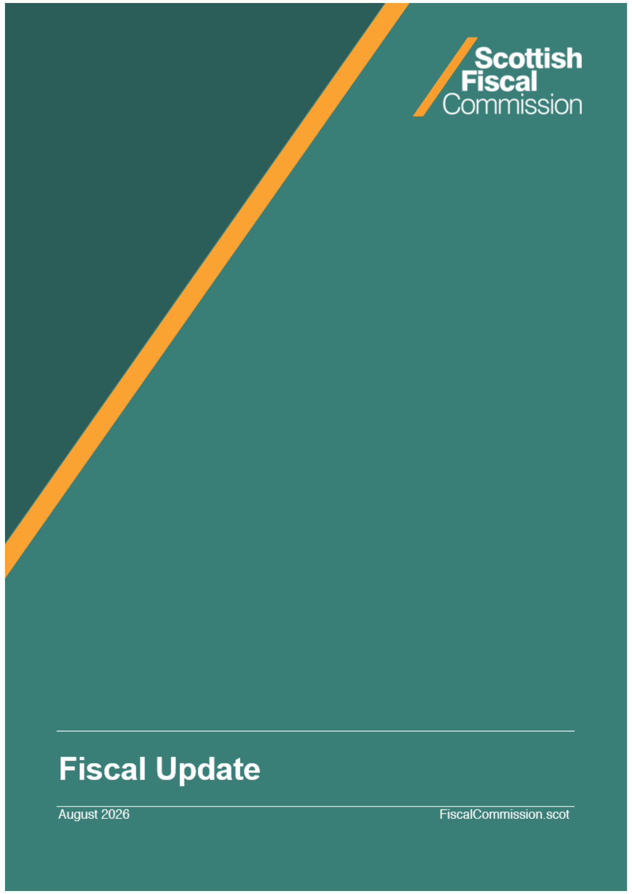
August 2026

Fiscal Update, Forecast Evaluation Report and Statement of Data Needs

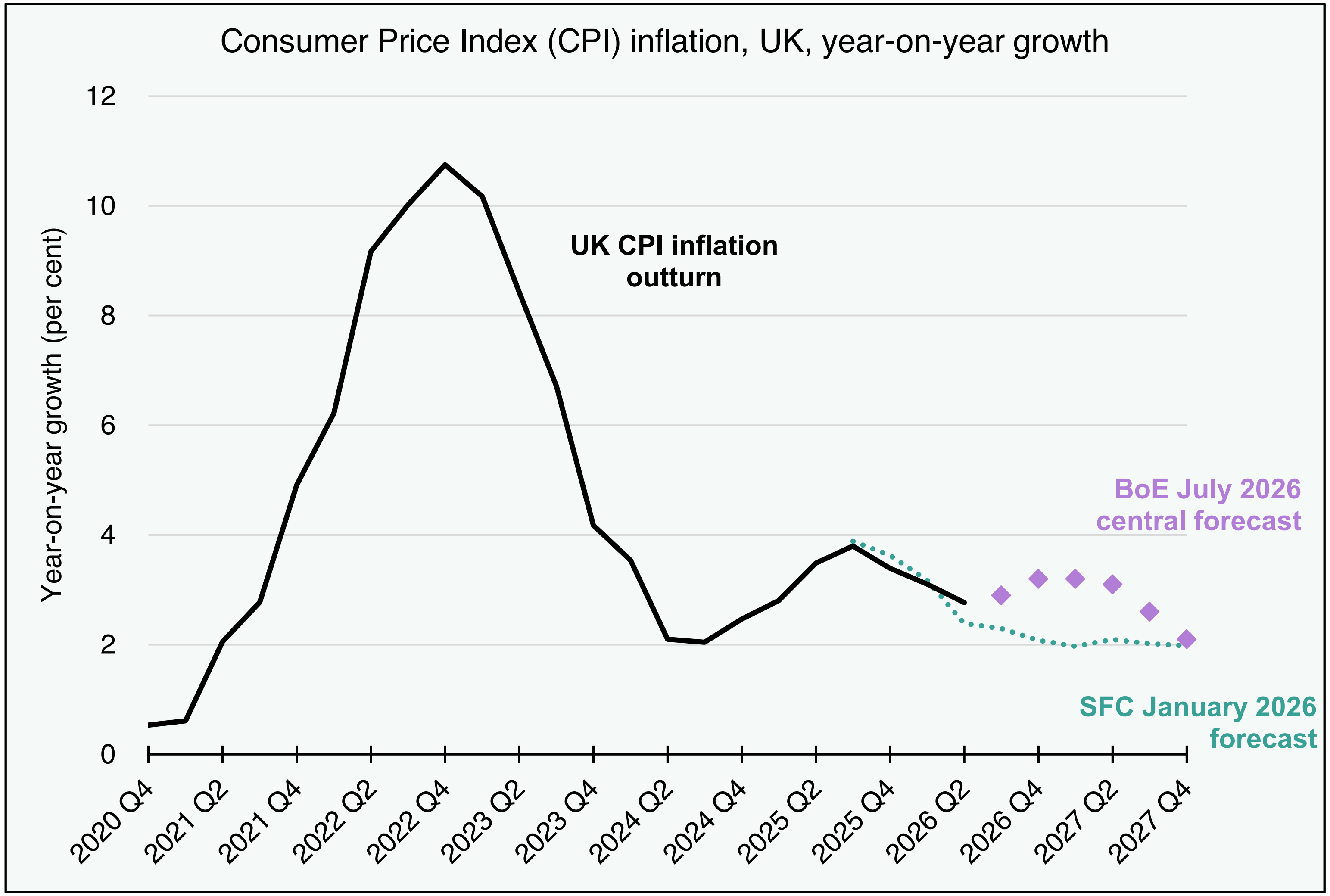
August 2026 SFC publications



Three reports published



Fiscal Update: Economic outlook

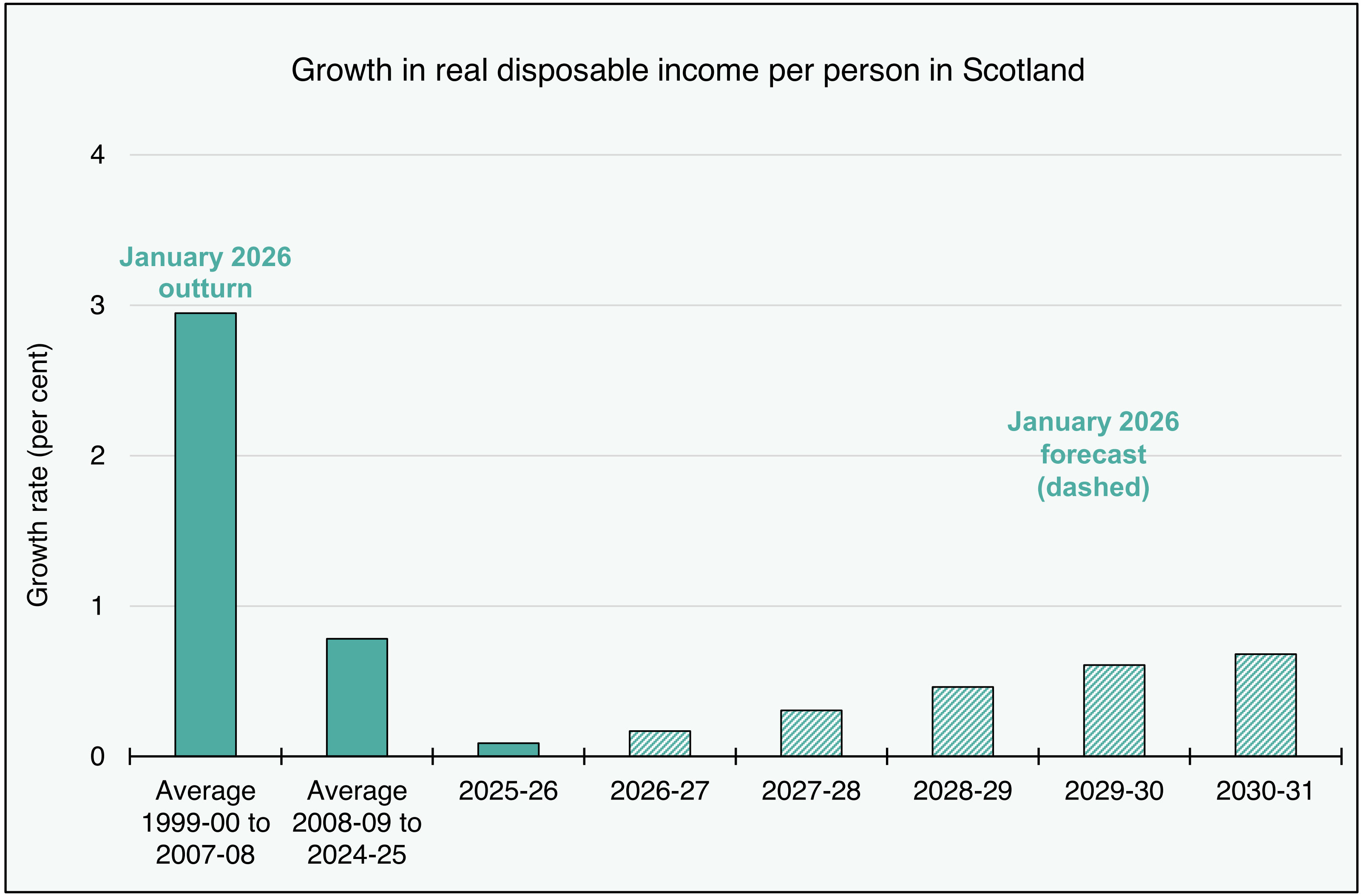


- Since our last forecast in January 2026, the economic outlook has weakened
- Inflation is now expected to be higher over the course of the year

Source: Economy section of the Fiscal Update, Figure 2.1, page 9: Fiscal Update – August 2026

Fiscal Update: Economic outlook

- In January 2026, we highlighted expectations of slow growth in living standards over the next five years
- Growth may be further weakened by higher inflation, with low-income groups particularly vulnerable



Source: Economy section of the Fiscal Update, Figure 2.3, page 11: [Fiscal Update – August 2026]

Fiscal Update: Funding outlook

Latest 2026-27 resource and capital funding position

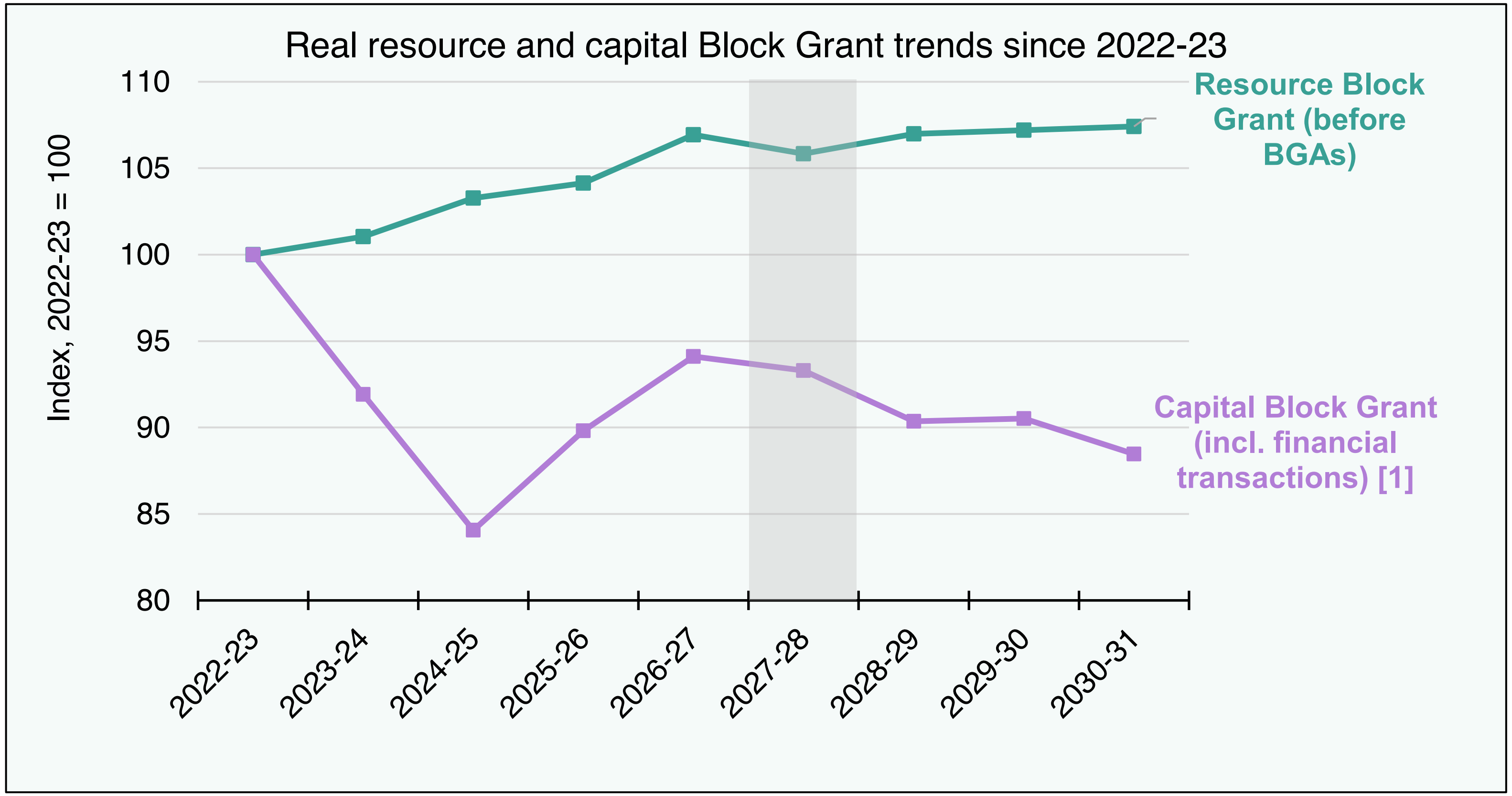
Source of funding (£ million)	January 2026	Changes since January 2026	Latest position
Resource			
Block Grant (before BGAs)	42,671	+625	43,296
Scotland Reserve drawdown	150	+162	312
Other sources	11,294	+44	11,337
Resource funding available for discretionary spend	**54,115**	**831**	**54,946**
Capital (including FTs)			
Block Grant	6,957	-63	6,893
Scotland Reserve drawdown	0	+48	48
Other sources	612	+43	654
Capital funding available for discretionary spend	**7,568**	**28**	**7,596**
Total funding available for discretionary spend	**61,683**	**859**	**62,542**

- Given the change in UK leadership, the UK Budget on 28 October could have a significant effect on funding.
- We know of two changes already: additional SEND spending and the Defence Investment Plan
- We see increases to both resource and capital funding relative to our January forecast

Source: Fiscal Update Supplementary Figures, Figure S3.5: [Fiscal Update – August 2026]

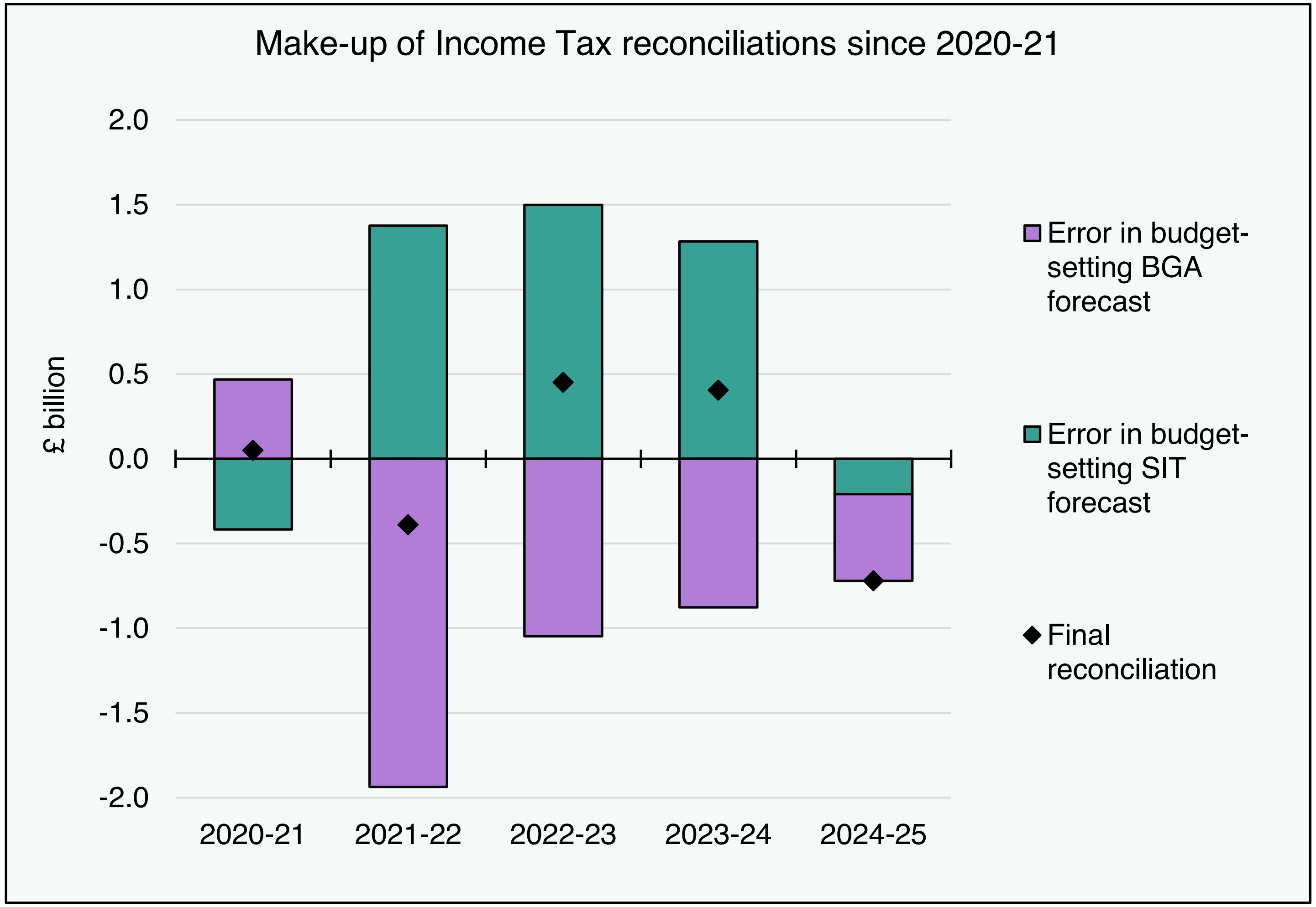
Fiscal Update: Funding outlook

- Both resource and capital Block Grant funding see real-terms falls for 2027-28.
- Scottish Government decisions on other parts of funding will also be important



Source: Funding section of the Fiscal Update, Figure 3.2, page 19: [Fiscal Update – August 2026]

Fiscal Update: Funding outlook



- Despite our smallest ever budget setting Income Tax forecasting error, the Scottish Budget will be subject to its largest Income Tax reconciliation of negative £720 million.
- In recent years SFC and OBR forecast errors have offset each other. This year both errors the same direction, meaning reduced funding for the Scottish Budget.
- The £720 million reconciliation is likely to exceed the Scottish Government's borrowing limit for 2027-28.

Source: Funding section of the Fiscal Update, Figure 3.4, page 22: [Fiscal Update – August 2026]

Fiscal Update: Funding outlook

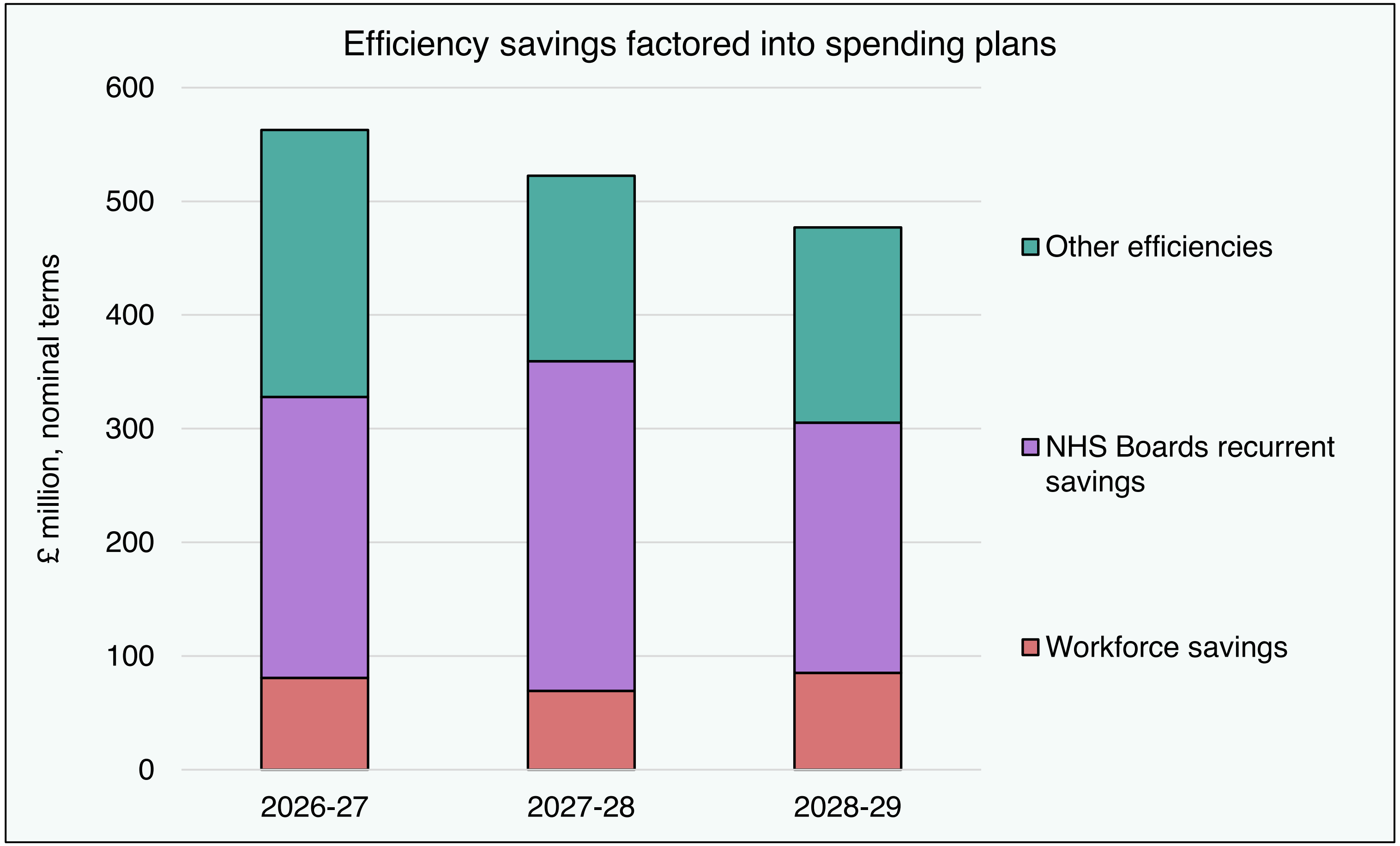
- The negative reconciliation reflects the Income Tax net position in 2024-25 being lower than expected, with a slight fall from 2023-24
- This is despite policy changes to raise additional revenue
- The tax base performance gap reflects ongoing slower growth in Scottish average earnings and employment

Tax base performance gap, 2020-21 to 2024-25

Collection year	Policy-only Income Tax net position (£ million)	Income Tax net position (£ million)	Tax base performance gap (£ million)	Tax base performance gap (percentage of SIT revenue)
2020-21	637	96	-540	4.6
2021-22	747	85	-662	4.9
2022-23	877	260	-617	4.1
2023-24	1,227	730	-497	2.9
2024-25	1,579	692	-888	4.8

Source: Funding section of the Fiscal Update, Figure 3.7, page 25: Fiscal Update – August 2026

Fiscal Update: Spending outlook

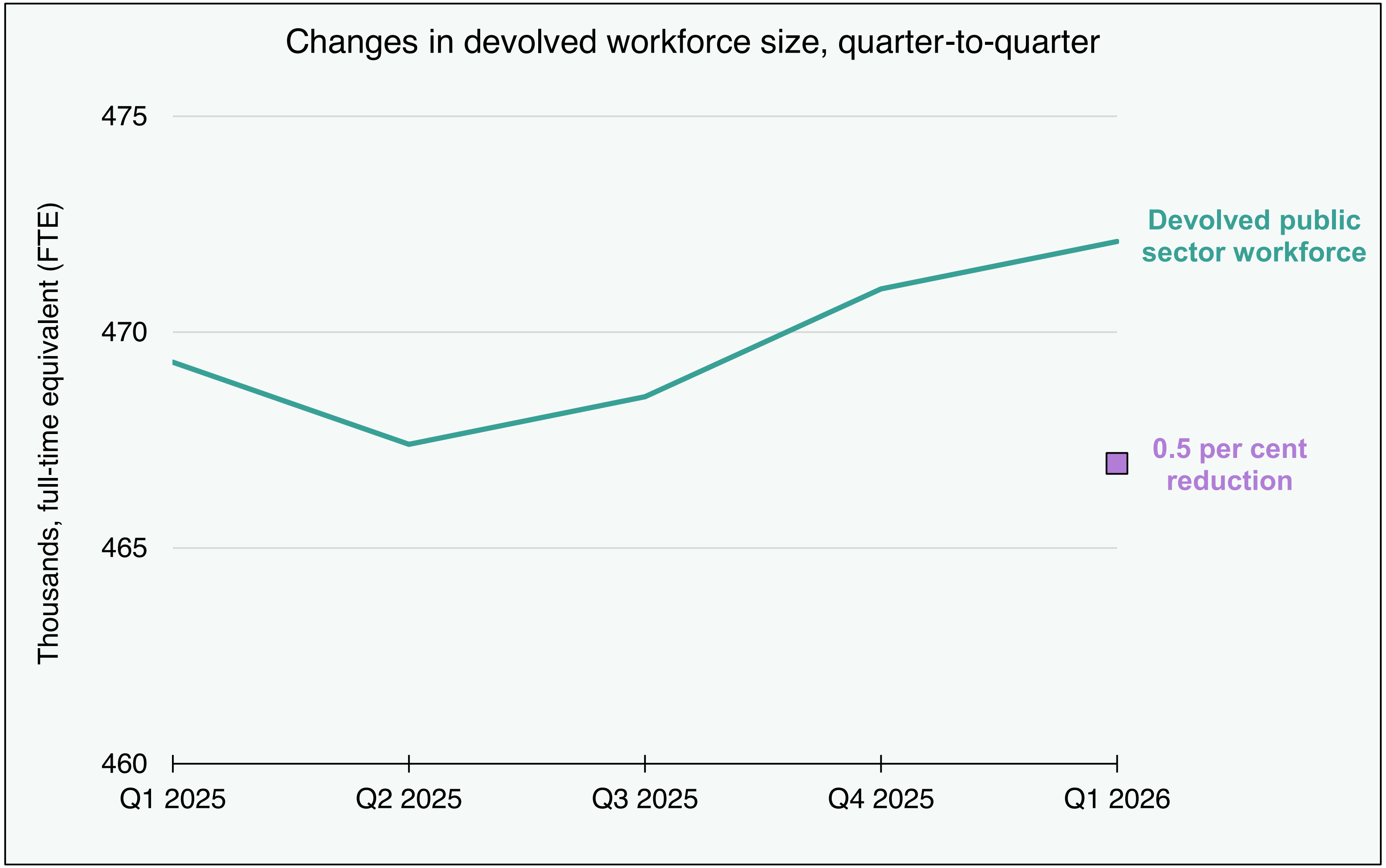


- The Scottish Government published significant saving plans in the Scottish Spending Review, the largest savings were expected to come from NHS Boards
- If planned savings are not delivered in 2026-27 this will create pressure on both current and future budgets

Source: Spending section of the Fiscal Update, Figure 4.1, page 30: [Fiscal Update – August 2026]

Fiscal Update: Spending outlook

- On workforce, higher inflation may put pay awards under pressure
- The Fiscal Sustainability Delivery Plan set a target for an average annual 0.5 per cent reduction in workforce to 2029-30
- Growth in the size of the workforce last year means greater reductions required in future years to meet this target



Source: Spending section of the Fiscal Update, Figure 4.2, page 32: [Fiscal Update – August 2026]

Thank you for listening

Slides available on our website

www.FiscalCommission.scot

Please email us with any further questions

press@FiscalCommission.scot